

**STATE OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

**REPORT OF EXAMINATION
OF
HOME MUTUAL INSURANCE COMPANY
WAHPETON, NORTH DAKOTA**

**AS OF
DECEMBER 31, 2004**

STATE OF NORTH DAKOTA
DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

Home Mutual Insurance Company

Wahpeton, North Dakota

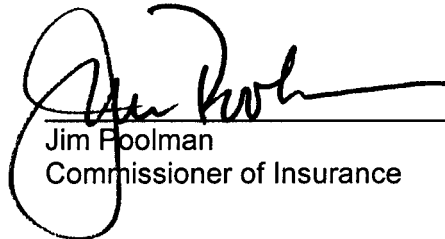
as of December 31, 2004, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.



IN WITNESS WHEREOF, I have hereunto

set my hand and affixed my official seal at my

office in the City of Bismarck, this 28th day of
November, 2005.



Jim Poolman
Commissioner of Insurance

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Wahpeton, North Dakota
October 7, 2005

Honorable Jim Poolman
Commissioner of Insurance
North Dakota Insurance Department
600 East Boulevard Avenue
Bismarck, ND 58505

Dear Sir:

Pursuant to your instructions and in accordance with the North Dakota Insurance Code, an examination was made of the books, records, and financial condition of

Home Mutual Insurance Company

Wahpeton, North Dakota

as of December 31, 2004.

INTRODUCTION

Home Mutual Insurance Company, Wahpeton, North Dakota, hereinafter referred to as the Company, was last examined as of December 31, 1999, by a representative of the State of North Dakota.

SCOPE OF EXAMINATION

The current examination covers the period January 1, 2000, through December 31, 2004, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

This examination was made in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners with due regard to the statutory requirements of the insurance laws, rules, and regulations of the State of North Dakota.

Examination procedures included a verification and evaluation of assets, a determination of liabilities, and reviews of corporate records, claim files, and other records relating to Company operation practices.

Comments on Most Previous Statutory Examination

Recommendations contained in the prior examination report dated December 31, 1999, have been addressed by the Company except as follows:

Comments/Recommendations

Action/Response by Company

It is recommended that the Company and Home Insurance Agency enter into a written agreement which includes a list of services to be provided, the method used to determine the cost of those services, and the date or dates the cost of those services will be paid.

At the time of the exam, the Company had not entered into a written agreement with the Home Insurance Agency.

It is recommended that the Company amend the reinsurance agreement with Grinnell Mutual to include an entire contract clause.

At the time of the exam, the Company had yet to amend its reinsurance agreement to include an entire contract clause.

It is recommended that the Company use the trade date rather than the settlement date when reporting the acquisition and disposal of investments.

The Company was not in compliance with this recommendation.

HISTORY

The Company was incorporated June 16, 1886, as The Home Mutual Insurance Company of Richland County, Dakota Territory, under Chapter 70 of the 1885 Session Laws of the Dakota Territory and commenced business on July 3, 1886.

The Company's term of existence was originally established for 30 years. The Articles and Bylaws were subsequently amended in accordance with N.D. Cent. Code § 26.1-13-03 making the Company's existence perpetual.

The Company was organized for the specific purpose of mutually insuring the property of its members against any risk of hazard by fire, lightning, and limited extended coverage.

At the March 2, 1989, annual meeting of the membership, the Articles of Incorporation were amended changing the name of the Company to read "The Home Mutual Insurance Company."

MANAGEMENT AND CONTROL

The Company is controlled by its membership. Any person owning property within the limits of the territory within which the Company is authorized to transact business may become a member of the Company and be entitled to all the rights and privileges of membership. No person who does not reside within such territorial limits shall become a director of the Company.

Directors

The management of the Company's affairs, business, and property is vested in a Board of Directors composed of five members elected for staggered terms of three years each at the annual meeting of the membership. A majority of the entire Board of Directors constitutes a quorum for the transaction of business.

Directors duly elected and serving the Company at December 31, 2004, were as follows:

Name and Residence	Term Expires	Occupation
Duane Akvik Walcott, ND	2006	Farming
Dawn Anderson Lidgerwood, ND	2007	Store Manager
Mark Huseth McLeod, ND	2007	Farming
Harold Jordheim Walcott, ND	2006	Retired Farmer
Francis Rubish Fairmount, ND	2008	Farming

Officers

Officers are elected at the organizational meeting of the Board of Directors by a majority vote for a period of one year or until their successors are elected and qualified. Officers serving at December 31, 2004, were as follows:

<u>Name</u>	<u>Office</u>
Francis Rubish	President
Dawn Anderson	Vice President
Dorothy Dockter	Secretary-Treasurer

Executive Committee

The Bylaws provide that the directors shall choose an Executive Committee which shall consist of the President and Vice President of the Company and one other director selected by the Board from its number. The Executive Committee shall have authority to act for the Company in emergency measures and to transact such business on behalf of the Company as it deems expedient.

Members of the Executive Committee as of December 31, 2004, were as follows:

Duane Akvik
Francis Rubish
Mark Huseth

The membership of the Executive Committee did not comply with the Bylaw provision requiring that the Company's President, Vice President and only one other director be chosen to sit on the Committee.

It is recommended that the Board of Directors designate members of the Executive Committee in compliance with the Bylaws.

Audit Committee

The Bylaws provide that the members of the Company shall elect at their annual meeting and from their membership at large an Audit Committee which shall consist of three members who shall conduct an annual audit of the affairs of the Company.

Members of the Audit Committee as of December 31, 2004, were as follows:

Richard Dickerson
Ken Nash
Lawrence Pikarski

CORPORATE RECORDS

The minutes of the meetings held by the membership and directors during the years under examination were reviewed for compliance with the Articles of Incorporation, Bylaws, and statutory requirements.

Members

During the period under examination, the annual meetings of the membership were held on the following dates: March 30, 2000; March 29, 2001; March 21, 2002; March 27, 2003; and March 25, 2004.

Directors

During the period under examination, the Board of Directors held four meetings in 2000, 2001, 2002 and 2003. In 2004 the Board held three meetings.

Articles and Bylaws

No changes were made to the Articles and Bylaws during the period under examination.

AFFILIATED COMPANIES

Home Insurance Agency is a North Dakota domiciled corporation operating as an insurance agency. The Company and Home Insurance Agency share office space and employees and have a common Board of Directors.

During the period under examination the Company received the following amounts from Home Insurance Agency as reimbursement for services provided by the Company:

2000	\$6,000
2001	\$6,000
2002	\$6,000
2003	\$6,000
2004	\$6,000

It is again recommended that the Company and Home Insurance Agency enter into a written agreement which includes a list of services to be provided, the method used to determine the cost of those services, and the date or dates the cost of those services will be paid.

FIDELITY BOND AND OTHER INSURANCE

The Company has a business sure-all policy in force which provided \$50,000 coverage for losses to business personal property and money and securities resulting from dishonest acts committed by any of the Company's employees. The coverage meets the minimum amount of fidelity insurance suggested in the NAIC Financial Examiners Handbook.

The Company also had in force a directors and officers liability insurance policy providing a limit of liability of \$1,000,000 each policy year. Each claim is subject to a \$2,500 deductible. The policy provides coverage for errors or omissions in the performance of professional services and wrongful acts of a director or officer while acting solely in their individual or collective capacities as directors and officers.

Insurance coverage on the Company's business personal property was reviewed and appeared to be adequate.

During the period under examination, the Company held an Agents Errors and Omissions policy for the benefit of Company agents that provides \$1,000,000 coverage with a \$2,500 deductible.

TERRITORY AND PLAN OF OPERATION

At December 31, 2004, the Company was authorized to transact business within the following counties:

Barnes	Cass	Dickey	Foster
Grand Forks	Griggs	LaMoure	Logan
McIntosh	Ransom	Richland	Sargent
Steele	Stutsman	Traill	

At December 31, 2004, the Company had 11 licensed agents.

SIGNIFICANT OPERATING RESULTS

Growth

The following exhibit reflects the growth of the Company over a 10-year period. Data with respect to the years 1995-1998 and 2000-2003 is as compiled from home office copies of the filed Annual Statements. Data for the years 1999 and 2004 reflects the results of examinations. The operation results are presented on a cash basis.

Year	Admitted Assets	Total Liabilities	Surplus as Regards Policyholders	Net Premiums Written	Under-writing Deductions	Investment and Other Income	Net Income (Loss)
2004	\$785,280	\$181,921	\$603,359	\$307,922	\$247,404	\$34,662	\$ 95,180
2003	690,652	171,253	519,399	289,075	179,645	31,771	141,201
2002	548,712	181,828	366,884	250,571	178,093	36,533	109,011
2001	439,199	142,722	296,477	213,630	267,584	39,120	(14,834)
2000	450,972	140,469	310,503	203,516	186,579	35,571	52,508
1999	393,832	158,320	235,512	219,993	163,181	33,637	90,449
1998	312,406	143,748	168,658	215,190	267,491	35,509	(16,792)
1997	351,301	156,643	194,658	208,428	284,812	28,225	(48,159)
1996	434,768	202,008	232,760	231,801	292,597	27,956	(32,840)
1995	515,294	224,061	291,233	202,112	263,964	32,182	(29,670)

Operating Ratios

The underwriting ratios presented below are on a cash basis and encompass the five-year period ending December 31, 2004.

	2000	2001	2002	2003	2004
Premiums	100.0%	100.0%	100.0%	100.0%	100.0%
Deductions					
Losses and Loss Adjustment	39.8%	78.0%	26.3%	20.7%	39.8%
Underwriting Expenses	51.9%	47.3%	44.8%	41.4%	40.5%
Total Deductions	91.7%	125.3%	71.1%	62.1%	80.3%
Net Underwriting Gain (Loss)	9.3%	(25.3%)	28.9%	37.9%	19.7%

INSURANCE PRODUCTS AND RELATED PRACTICES

During the course of this examination, a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. This review was general in nature and substantially less in scope than a full scope market conduct examination.

This review was directed at business practices in the following major areas: Advertising and Sales and Treatment of Policyholders.

Advertising: The advertising material was reviewed and no exceptions were noted.

Claims: A limited review of claim files indicated that the Company paid claims promptly and within policy provisions upon receipt of satisfactory proof of loss or damage.

REINSURANCE

The Company's reinsurance treaty in force at December 31, 2004, is summarized below:

Nonaffiliated Ceding Contract:

1. Type: Excess
- Reinsurer: Grinnell Mutual Reinsurance Company
- Scope: Fire, Lightning and Extended Coverages:
 - (A) Individual Occurrence of Loss Excess - covers all risks written by the Company in excess of a \$50,000 retention subject to the following limits:

Dwellings	\$ 500,000
Farm Outbuildings	750,000
Livestock/Poultry/Horse Operations	500,000
Commercial and Public Property	500,000
 - (B) Aggregate Excess - provides coverage 100 percent of the Company's aggregate net losses in excess of a defined retention limit. The retention limit for 2004 was \$203,150.
- Premium:
 - (A) Individual Occurrence of Loss Excess - The 2004 annual premium was \$.2258 for fire and \$.1069 for wind, per \$1,000 of adjusted gross fire risks in force at the end of each month during the contract year.
 - (B) Aggregate Excess - The 2004 annual premium was \$.3869 per \$1,000 of gross fire risks in force at the end of each month during the contract year.
- Commissions: None
- Termination Date: The agreement may be terminated only as of the last day of any calendar year by either party upon 90 days notice in writing.

The contract contained the insolvency clause required by N.D. Cent. Code § 26.1-02-21 and all of the clauses required by the NAIC's Accounting Practices and Procedures Manual except for the entire contract clause.

It is again recommended that the Company amend the reinsurance agreement with Grinnell Mutual Reinsurance Company to include an entire contract clause.

ACCOUNTS AND RECORDS

The general books of the Company are on a cash basis and consist of a cash receipts journal, a cash disbursement journal, a check register, a claims register, a policy register, and a corporate minute book.

The Examiner created a trial balance as of December 31, 2004, from the Company provided cash receipts and disbursements journals. No material exceptions were noted when the trial balance was traced to the 2004 Annual Statement:

In the course of performing audit procedures, the Examiner considered internal controls noting the following exceptions:

- Claims are recorded in the claims register when paid rather than when the claim is reported to the Company.
- The Company permits blank checks to be signed in advance of their preparation.

It is recommended that all reported claims be recorded in the claims register when notification of the claim is received by the Company and that the Company prohibit the practice of signing blank checks.

FINANCIAL STATEMENTS

The following statements reflect the financial condition of the Company as of December 31, 2004, as determined by this examination and its operating results for the year then ended.

Home Mutual Insurance Company
Statement of Assets, Liabilities, and Surplus
December 31, 2004

ASSETS

LEDGER ASSETS:

Bonds	\$414,524.75
Stocks	6,185.42
Cash on Hand & Checking	42,945.98
Cash on Deposit	<u>312,664.26</u>

TOTAL LEDGER ASSETS \$776,320.41

NONLEDGER ASSETS:

Interest Due and Accrued on Bonds	\$ 3,481.11
Interest Due and Accrued on Cash on Deposit	1,999.41
Furniture and Fixtures	1,504.29
Market Value of Stocks over Book Value	<u>3,478.74</u>

TOTAL NONLEDGER ASSETS 10,463.55

DEDUCT: ASSETS NOT ADMITTED

Furniture and Fixtures	\$ 1,504.29
Book Value of Ledger Assets in Excess of Market Value	<u>0.00</u>

TOTAL NONADMITTED ASSETS 1,504.29

TOTAL NET ADMITTED ASSETS \$785,279.67

LIABILITIES

Unpaid Losses	\$ 6,818.00
Unpaid Loss Adjustment Expense	200.00
Unearned Premium Reserve	172,428.45
Commissions Due and Payable to Agents	2.21
Unpaid Taxes	2,365.00
Unpaid General Expenses	<u>107.50</u>

TOTAL LIABILITIES \$181,921.16

SURPLUS TO POLICYHOLDERS 603,358.51

TOTAL LIABILITIES AND SURPLUS \$785,279.67

Home Mutual Insurance Company
Statement of Cash Receipts and Cash Disbursements
For the Year 2004

INCOME:		
Gross Premium Income	\$377,677.11	
Less: Return Premiums	9,597.40	
Premiums for Reinsurance Ceded	<u>60,157.87</u>	
NET PREMIUM INCOME		\$307,921.84
Interest on Bonds	12,515.75	
Dividends on Stocks	63.03	
Interest on Cash on Deposit	5,655.07	
Profit on Sale or Maturity of Ledger Assets	1,380.71	
Commissions Received on Liability Premiums	9,047.61	
Expense Reimbursement From Home Insurance Agency	<u>6,000.00</u>	
TOTAL INCOME RECEIPTS		\$342,584.01
 DISBURSEMENTS		
Gross Losses Paid and Incurred in 2004	\$ 131,088.95	
Gross Losses Paid in 2004 But Incurred in Prior Years	1,455.67	
Deduct: Subrogation	0	
Salvage	<u>11,811.00</u>	
NET LOSSES PAID		\$ 120,733.62
Claim Adjustment Expenses	1,840.36	
Commissions Paid to Agents	58,101.36	
Directors Fees and Expenses	766.23	
Salaries to Employees	30,222.94	
Printing, Stationery, and Office Supplies	2,475.94	
Rent and Rent Items	3,360.00	
State and Local Insurance Taxes	5,859.00	
Insurance Department Licenses and Fees	304.59	
Payroll Taxes	2,671.13	
Legal Fees and Auditing	500.00	
Travel and Travel Items	2,364.54	
Advertising	882.52	
Dues and Donations	2,959.00	
Equipment	829.72	
Insurance and Bonds	3,282.10	
Postage, Telephone, and Bank Charges	2,862.48	
Employee Relations and Welfare	695.44	
Data Processing Expenses	1,611.04	
Agents Errors & Omissions Policy Expense	3,608.06	
Miscellaneous Expenses	<u>1,474.40</u>	
TOTAL FUNDS DISBURSED		<u>247,404.47</u>
NET GAIN		<u>\$ 95,179.54</u>

COMMENTS TO THE FINANCIAL STATEMENTS

Financial statement balances at December 31, 2004, are commented upon only if financial changes, recommendations, or special explanations are considered necessary.

Bonds

The following schedule presents the classification, market value, actual cost, par value, and book value of all bonds owned by the Company as of December 31, 2004:

Classification	Market Value	Actual Cost	Par Value	Book Value
Municipal	\$ 14,970.75	\$ 15,000.00	\$ 15,000.00	\$ 15,000.00
Corporate	124,903.60	125,300.00	125,000.00	125,300.00
Government Agency	24,633.50	25,000.00	25,000.00	25,000.00
Mortgage Backed	34,373.22	36,165.25	35,574.97	36,165.25
Negotiable CDs	157,601.07	158,059.50	158,000.00	158,059.50
Reclassified CDs	55,000.00	55,000.00	55,000.00	55,000.00
Totals	<u>\$411,482.14</u>	<u>\$414,524.75</u>	<u>\$413,574.97</u>	<u>\$414,524.75</u>

Market values were determined on the basis of methods established by the Committee on Valuation of Securities of the NAIC. The admitted value of bonds at December 31, 2004, represented book value.

The admitted value of bonds as determined by this examination is \$55,000 more than the amount reported by the Company in its Annual Statement. The increase relates to the following item:

- The Examiner reclassified three long-term certificates of deposit to this caption from Cash on Deposit in accordance with Bulletin 2003-3 which allows North Dakota domestic insurers to report long-term certificates of deposit as cash only if certain criteria are met. The Company's aggregate deposits at the Bank of the West and at US Bank exceeded the \$100,000 limitation for funds deposited with a single issuer.

The Examiner noted the following exceptions in regard to the Company's reporting of bond and stock investments:

- The Company did not amortize bond premiums resulting in an immaterial overstatement of the reported book value.
- The Company did not report the NAIC designation in Column 13 of Section VII – Part 1.
- The Company used the settlement date rather than the trade date when reporting investment acquisitions and sales in Section VII – Part 3 and Part 4.

It is recommended that the Company record annual adjustments to the book value of bonds for the accrual of bond discount and the amortization of bond premium as required by the *Annual Statement Instruction Manual*.

It is recommended that the Company complete column 13, the NAIC Designation column to Section VII - Part 1.

It is again recommended that the Company use the trade date rather than the settlement date to report bond and stock transactions in Section VII – Part 3 and Part 4 as required by the *Annual Statement Instruction Manual*.

Stocks

The following schedule discloses the classification, number of shares, cost and book value, and market or admitted value of all shares owned at year end:

Classification	Number of Shares	Cost and Book Value	Market and Admitted Value
NAMIC Stock	30.00	\$ 1,500.00	\$4,978.74
Money Market	4,685.42	4,685.42	4,685.42
Totals	4,715.42	\$6,185.42	\$9,664.16

Book values were verified to the accounting records and statements from brokers. Market values were determined using unit prices listed in the statements from brokers and other independent sources.

Interest Due and Accrued on Bonds

The Company's accrual for interest receivable on bonds was determined by this examination to be in the amount of \$3,481.11 or \$748.49 more than that reported by the Company. The increase is attributable to the accrued interest of the three certificates of deposit that were reclassified from cash on deposit to the bonds caption.

Book Value of Ledger Assets in Excess of Market Value

The Company incorrectly reported a non-admitted asset of \$2,676 on line 25, page 3 "Book value of ledger assets in excess of market value." This examination determined the appropriate amount of \$0 since the book value of stocks did not exceed market and all bonds were investment grade (i.e., having an equivalent NAIC designation of "1" or "2") allowing book value to be recognized as the admitted value.

Cash on Deposit

The following three long-term certificates of deposit should have been reported as bonds on Section VII, Part 1, instead of in Schedule N as cash on deposit.

<u>CD #</u>	<u>Amount</u>	<u>Maturity Date</u>
6338004785	\$25,000	12-18-2005
363011303155	20,000	10-28-2005
6338003695	<u>10,000</u>	4-27-2005
	\$55,000	

In accordance with Bulletin 2003-3, the Examiner reclassified the foregoing certificates of deposit as bonds.

It is recommended that the Company classify certificates of deposits with a term longer than one year as bonds rather than as cash on deposit if the CDs do not meet the exemption requirements cited in Bulletin 2003-3.

At December 31, 2004, the Company's deposit in two banks exceeded FDIC insured limits.

It is recommended that the Company limit its deposit in any one banking institution to FDIC insured amounts or obtain insurance protection covering the deposits exceeding FDIC insured limits.

Interest Due and Accrued on Cash on Deposit

Interest Due and Accrued on Cash on Deposit was determined by this examination to be in the amount of \$1,999.41 or \$748.49 less than that reported by the Company. The decrease is attributable to the accrued interest on the three certificates of deposit that were reclassified as bonds.

Unpaid Losses

The reserve for unpaid losses at December 31, 2004, was determined by this examination in the amount of \$6,818 or \$1,818 more than the \$5,000 reserve established by the Company. The Examiner established the reserve for unpaid losses based on a review of subsequent payments and reserves for pending claims.

Surplus to Policyholders

Surplus to policyholders was determined by this examination to be in the amount of \$603,358.51 or \$858.00 more than the amount reported by the Company.

Adjustments to surplus are shown in the following schedule:

Caption	Company	Examination	Increase or (Decrease) to Surplus
Ledger Assets			
Bonds	\$359,524.75	\$414,524.75	\$55,000.00
Cash on Deposit	367,664.26	312,664.26	(55,000.00)
Non-Ledger Assets			
Interest Due and Accrued on Bonds	2,732.62	3,481.11	748.49
Interest Due and Accrued on Cash on Deposit	2,747.90	1,999.41	(748.49)
Non-Admitted Assets			
Book Value of Ledger Assets in Excess of Market Value	2,676.00	0.00	2,676.00
Liabilities			
Unpaid Losses	5,000.00	6,818.00	(1,818.00)
Net Change			<u>\$ 858.00</u>

CONCLUSION

The financial condition of Home Mutual Insurance Company, Wahpeton, North Dakota, as determined by this examination as of December 31, 2004, is summarized as follows:

TOTAL ADMITTED ASSETS	<u>\$785,279.67</u>
Total Liabilities	\$181,921.16
Surplus to Policyholders	<u>603,358.51</u>
TOTAL LIABILITIES AND SURPLUS	<u>\$785,279.67</u>

Since the last examination conducted as of December 31, 1999, the Company's admitted assets have increased \$391,448, its total liabilities have increased \$23,601, and its surplus as regards policyholders has increased by \$367,847.

The Examiner expresses his appreciation for the courteous cooperation extended him during the course of this examination.

Respectfully submitted,



Chad Myhre
Examiner
N.D. Insurance Department

COMMENTS AND RECOMMENDATIONS

It is recommended that the Board of Directors designate members of the Executive Committee in compliance with the Bylaws.

It is again recommended that the Company and Home Insurance Agency enter into a written agreement which includes a list of services to be provided, the method used to determine the cost of those services, and the date or dates the cost of those services will be paid.

It is again recommended that the Company amend the reinsurance agreement with Grinnell Mutual Reinsurance Company to include an entire contract clause.

It is recommended that all reported claims be recorded in the claims register when notification of the claim is received by the Company and that the Company prohibit the practice of signing blank checks.

It is recommended that the Company record annual adjustments to the book value of bonds for the accrual of bond discount and the amortization of bond premium as required by the *Annual Statement Instruction Manual*.

It is recommended that the Company complete column 13, the NAIC Designation column to Section VII - Part 1.

It is again recommended that the Company use the trade date rather than the settlement date to report bond and stock transactions in Section VII – Part 3 and Part 4 as required by the *Annual Statement Instruction Manual*.

It is recommended that the Company classify certificates of deposits with a term longer than one year as bonds rather than as cash on deposit if the CDs do not meet the exemption requirements cited in Bulletin 2003-3.

It is recommended that the Company limit its deposit in any one banking institution to FDIC insured amounts or obtain insurance protection covering the deposits exceeding FDIC insured limits.